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Exxon Makes First Big Investment in Biofuels

JOHN PORRETTO | July 14, 2009 10:37 AM EST |

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HOUSTON — Exxon Mobil Corp. said Tuesday it will make its first major investment in greenhouse-gas reducing biofuels in a $600 million partnership with biotech company Synthetic Genomics Inc. to develop transportation fuels from algae.

Despite record-breaking profits in recent years, the oil and gas giant has been criticized by environmental groups, members of Congress and even shareholders for not spending enough to explore alternative energy options.

One of the company's requirements was finding a biofuel source that could be produced on a large scale. It says photosynthetic algae appears to be a viable, long-term candidate. If the alliance is successful, pumping algae-based gasoline at Exxon service stations is still several years away and will mean additional, multibillion-dollar investments for mass production.

"This is not going to be easy, and there are no guarantees of success," Emil Jacobs, a vice president at Exxon Mobil Research and Engineering Co., said in an interview with The Associated Press. "But we're combining Exxon Mobil's technical and financial strength with a leader in bioscientific genomics."

Jacobs said the project involves three critical steps: identifying algae strains that can produce suitable types of oil quickly and at low costs, determining the best way to grow the algae and developing systems to harvest enough for commercial purposes.

Besides the potential for large-scale production, algae has other benefits, Jacobs said. It can be grown using land and water unsuitable for other crop and food production; it consumes carbon dioxide, the greenhouse gas blamed for climate change; and it can produce an oil with molecular structures similar to the petroleum products _ gasoline, diesel, jet fuel _ Exxon already makes.

That means the Irving, Texas-based company will be able to convert the bio-oil into fuels at its own refineries and use existing pipelines and tanker trucks to get it to consumers.

The $600 million price tag includes $300 million for Exxon's internal costs and $300 million or more to La Jolla, Calif.-based Synthetic Genomics _ if research and development milestones are successfully met.

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"Even though this is a multiyear program, we both still consider it a very aggressive timetable, and it involves a lot of basic research," said J. Craig Venter, founder and CEO of the privately held company. "As a result, you don't know the answers until you've done these tests and experiments."

Algae is considered a sustainable source for second-generation biofuels, which go beyond corn-based ethanol into nonfood sources such as switchgrass and wood chips.

Royal Dutch Shell PLC said earlier this year it would scale back large investments in wind and solar in favor of next-generation biofuels. The European oil giant is working with Canadian company Iogen Corp. on a method to produce ethanol from wheat straw, and partnering with Germany-based Choren Industries to develop a synthetic biofuel from wood residue.

Another oil major, BP PLC, plans to team up with Verenium Corp. to build a $300 million cellulosic ethanol plant in Highlands County, Fla.

For Exxon Mobil, the world's largest publicly traded oil company, the biofuels investment is tiny compared with its spending to find new supplies of crude and natural gas.

CEO Rex Tillerson said earlier this year Exxon's 2009 spending on capital and exploration projects is expected to reach $29 billion, up from the $26.1 billion it spent in 2008. The company said those levels are likely to remain in the $25 billion to $30 billion range through 2013.

Exxon Mobil shares rose 25 cents to $65.95 in trading Tuesday. They've traded in a range of $56.51 to $86.47 in the past year.

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AP Energy Writer Dirk Lammers in Sioux Falls, S.D., contributed to this report.

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